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RJ Reynolds
Tobacco Company

M. A. Young
Regional Sales Manager
New York Metro Region #1200
(908) 225-4774

December 9, 1996

TO: KAM's
DM's
AM's

RE: Effective Use of Forsyth Bundling Calculation Form

Dear Managers:

We are all keenly aware of the increased competitive nature of our business, especially regarding the part pricing plays at wholesale and retail. In 1996, we have seen downward pricing in the form of coupons, VPR's and direct buydowns across all cigarette tiers. This especially affects the gap between branded savings and lowest tier. In addition "wildcatters" continue to offer our private label partners brands that on the surface, appear to be more profitable than their Forsyth brands. There is no reason to believe these trends will not continue in 1997.

For these reasons it is imperative that we prioritize the "bundling" of our resources when presenting to our wholesale and retail partners.

Effective immediately, you should complete a "Bundling Calculation" worksheet on each of your Forsyth Private Label partners to fully understand the dead net value of the private label brand. By doing this you will be able to discuss the issue when or if it arises.

If our private label pricing becomes an issue with any of your accounts and you can not satisfy their concerns through bundling, you should call Mike to discuss. Before doing so, you should fax your "Bundling Calculation" worksheet to Mike so he can discuss the concern intelligently. Mike will in turn call Don Fitzgerald, if and only if it is determined that there is still a shortfall in value even after bundling, Don Fitzgerald will then work with me and Forsyth to determine next steps.

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"We work for smokers."

In following the above procedures we will accomplish the following:

- Ensure understanding and familiarity of the "Bundling" process by all.
- Have the ability to effectively discuss the net value of our PL program with customers on the spot instead of having to get back to them later
- Make management, through proper channels, aware of any potential PL business issues
- Reduce time consuming and unnecessary telephone calls to Mike, Don Fitzgerald and Forsyth Business Unit.

Your adherence to these procedures is fully expected. If you have any questions, please contact Mike.

Sincerely,

*Mark*

M. A. Young

MAY/ams

cc: RBM
ROM

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